



The State of Indian Macro Economy 2009-10

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Structure

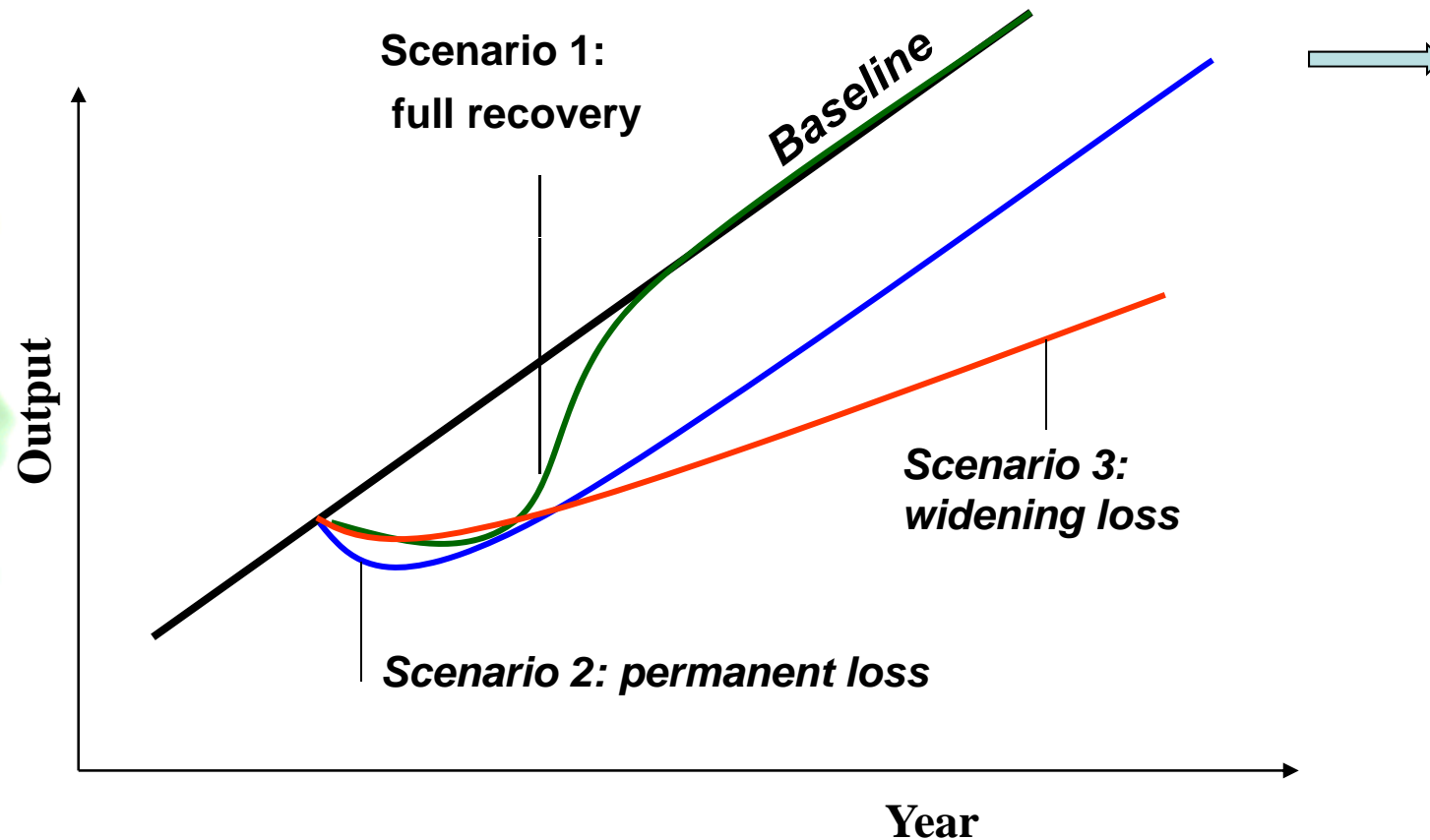


1. Global recovery
2. Impact of global crisis on India
3. Fiscal sustainability
4. Inflation
5. Balance of payments
6. GDP forecasts
7. Summary & Policy suggestions



1. Global Recovery

Global Recovery: Three Scenarios



Source: European Commission (Reproduced in *The Economist*, 3-9 Oct 09)



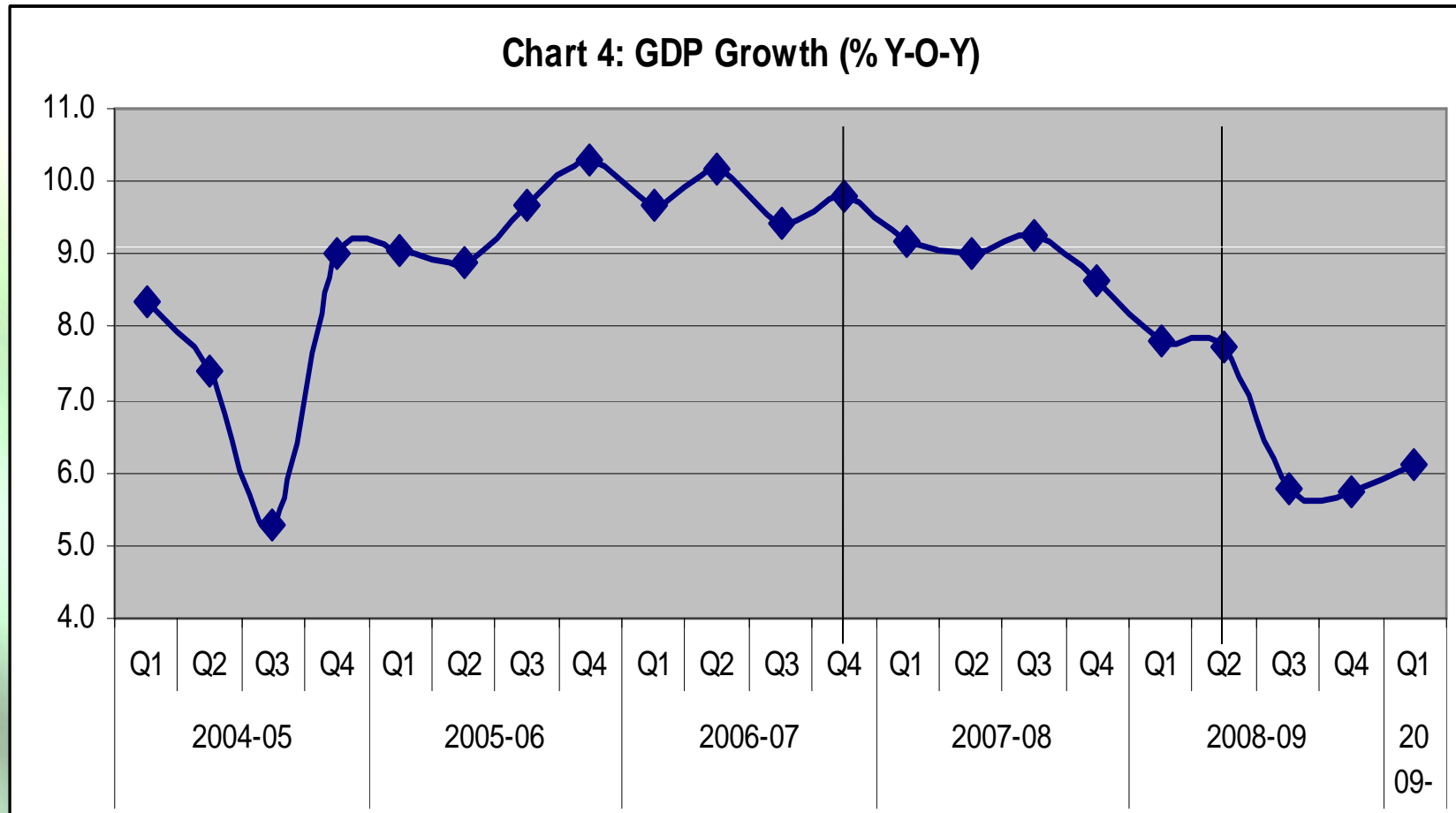
2. Impact of Global Crisis on India

Impact of Global Crisis on India

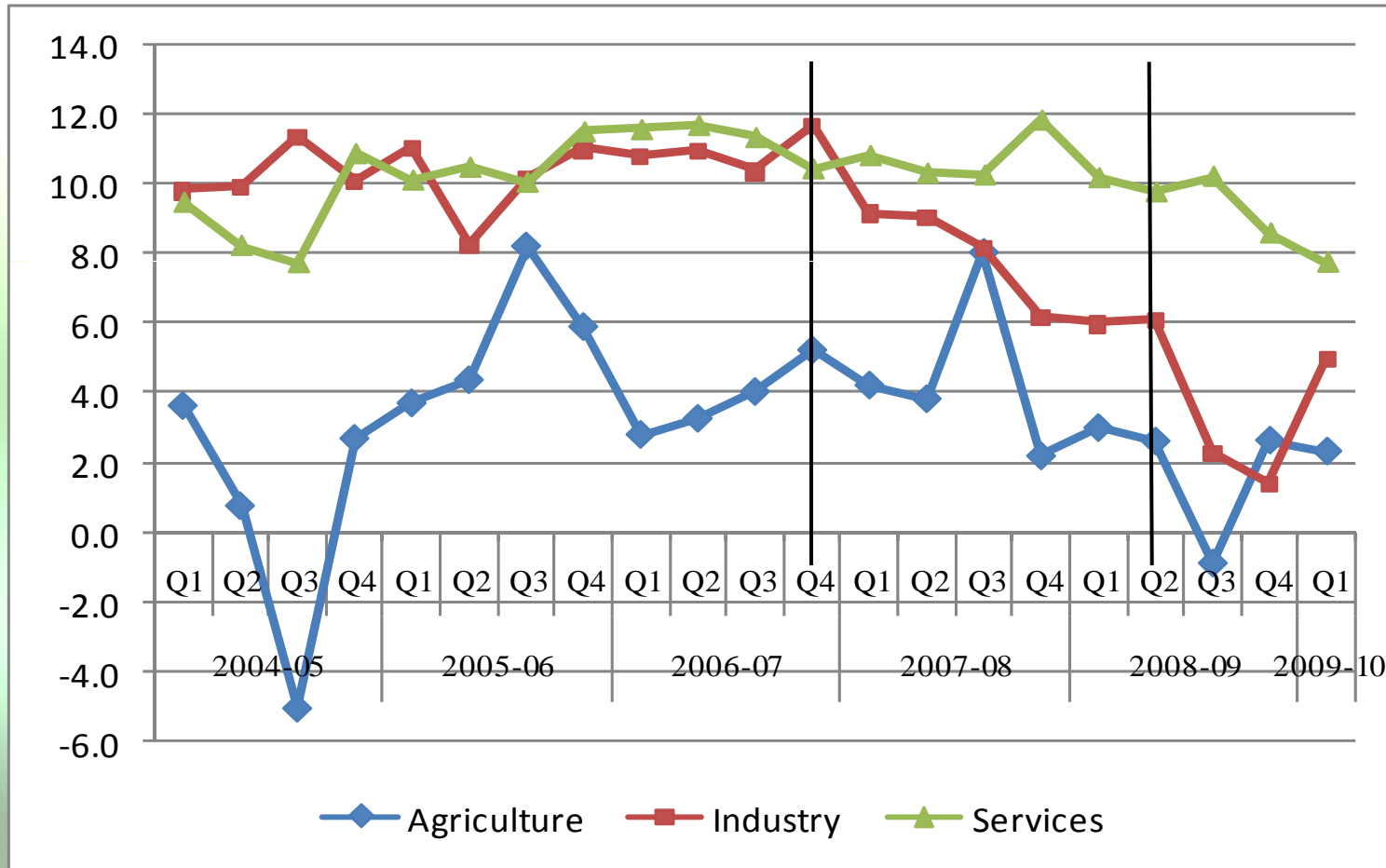


- Sudden cutback and reversal of capital flows
- Collapse in external demand
- Waning of consumer and business confidence
 - Drop in consumption demand growth
 - Drop in investment demand growth
 - Drop in exports and imports
 - Drop in GDP growth

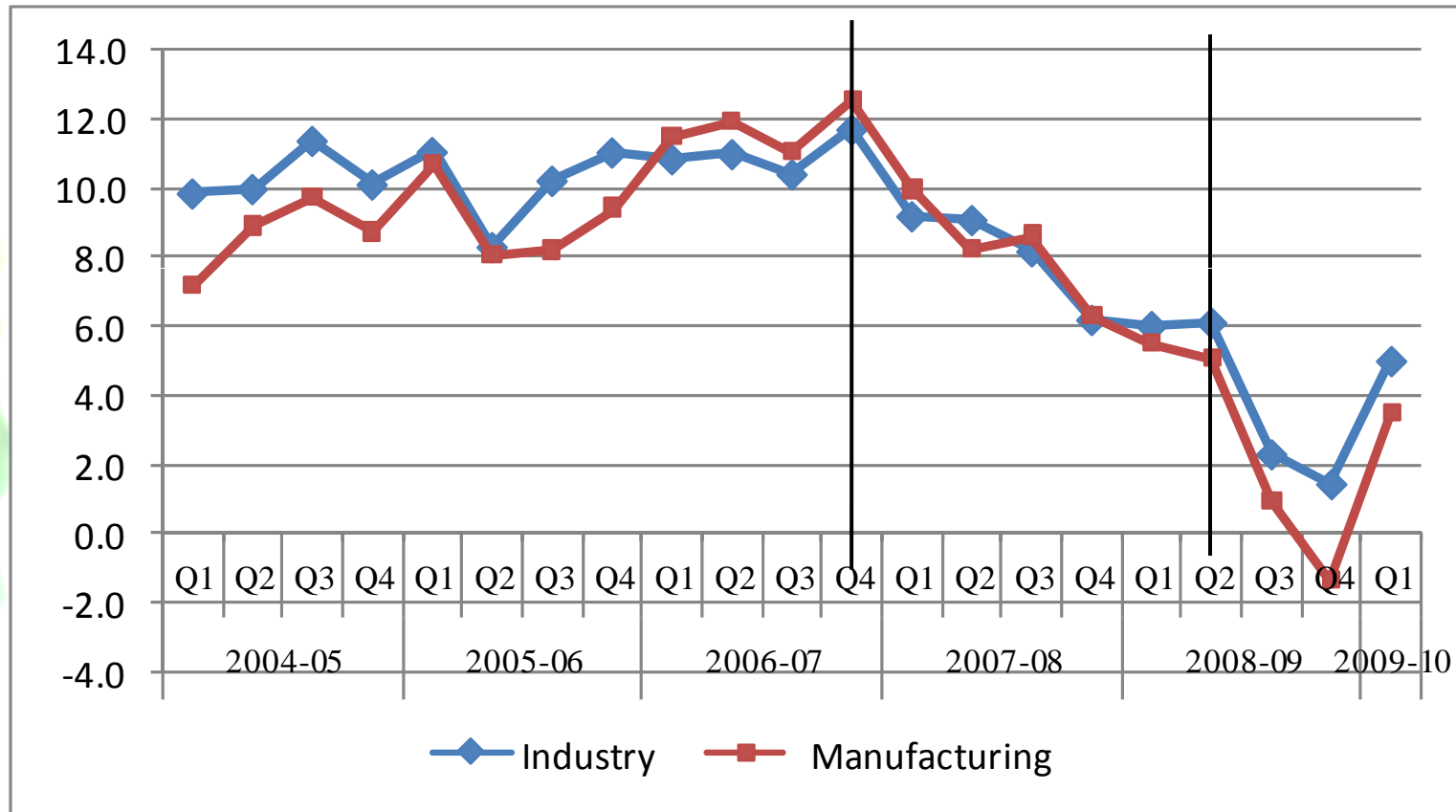
Falling GDP Growth



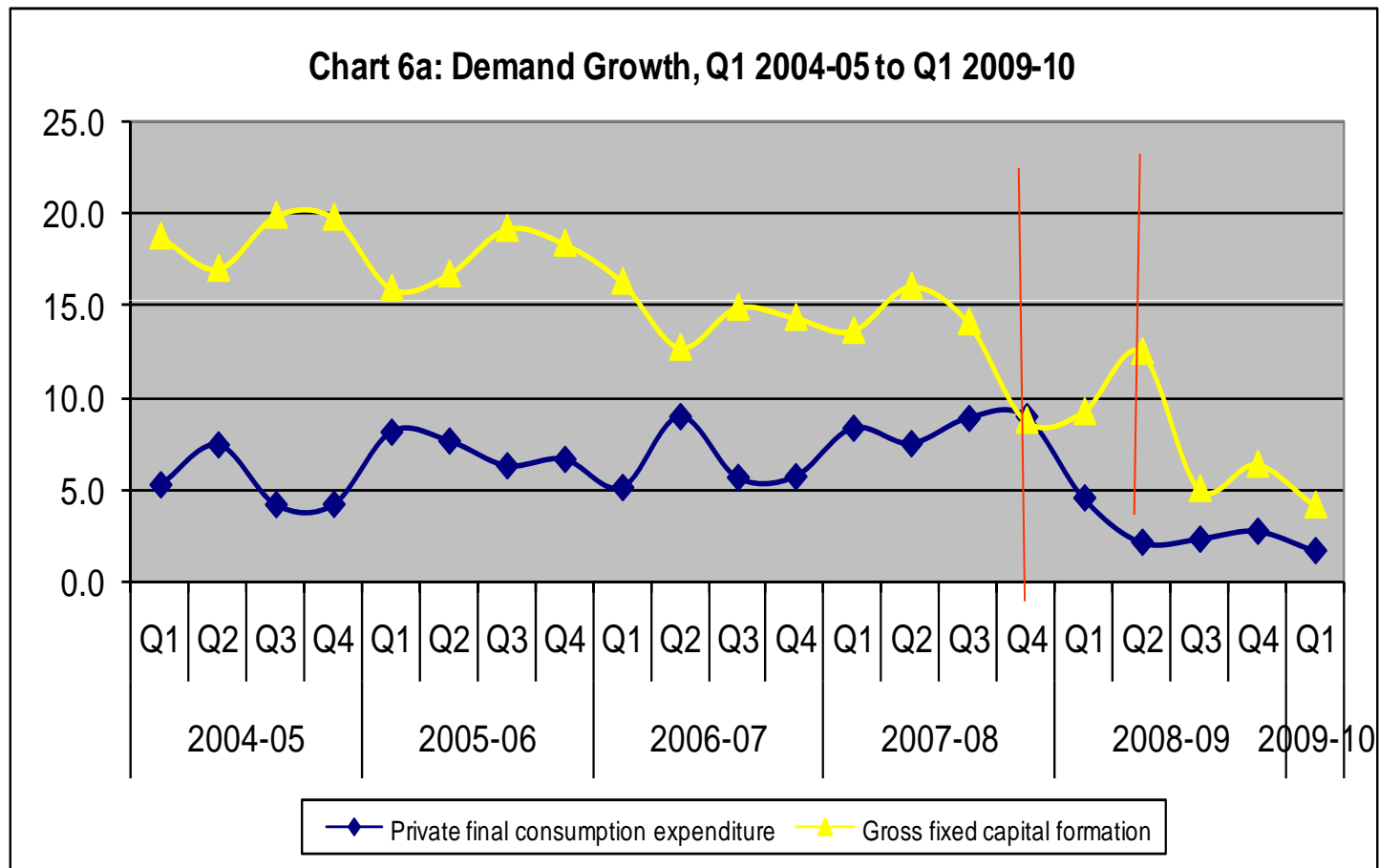
Sectoral Growth Rates



Industry and Manufacturing

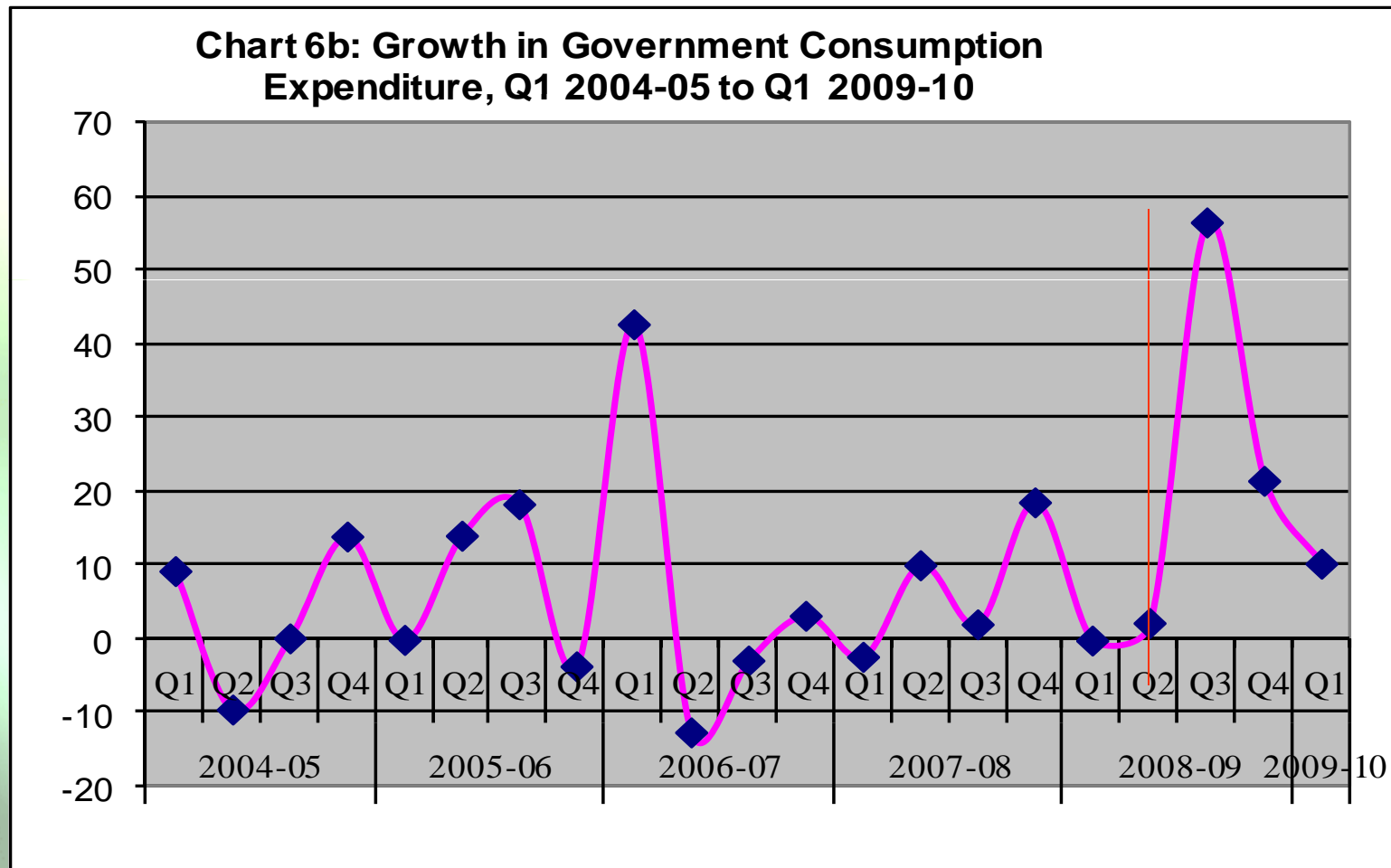


Demand Growth



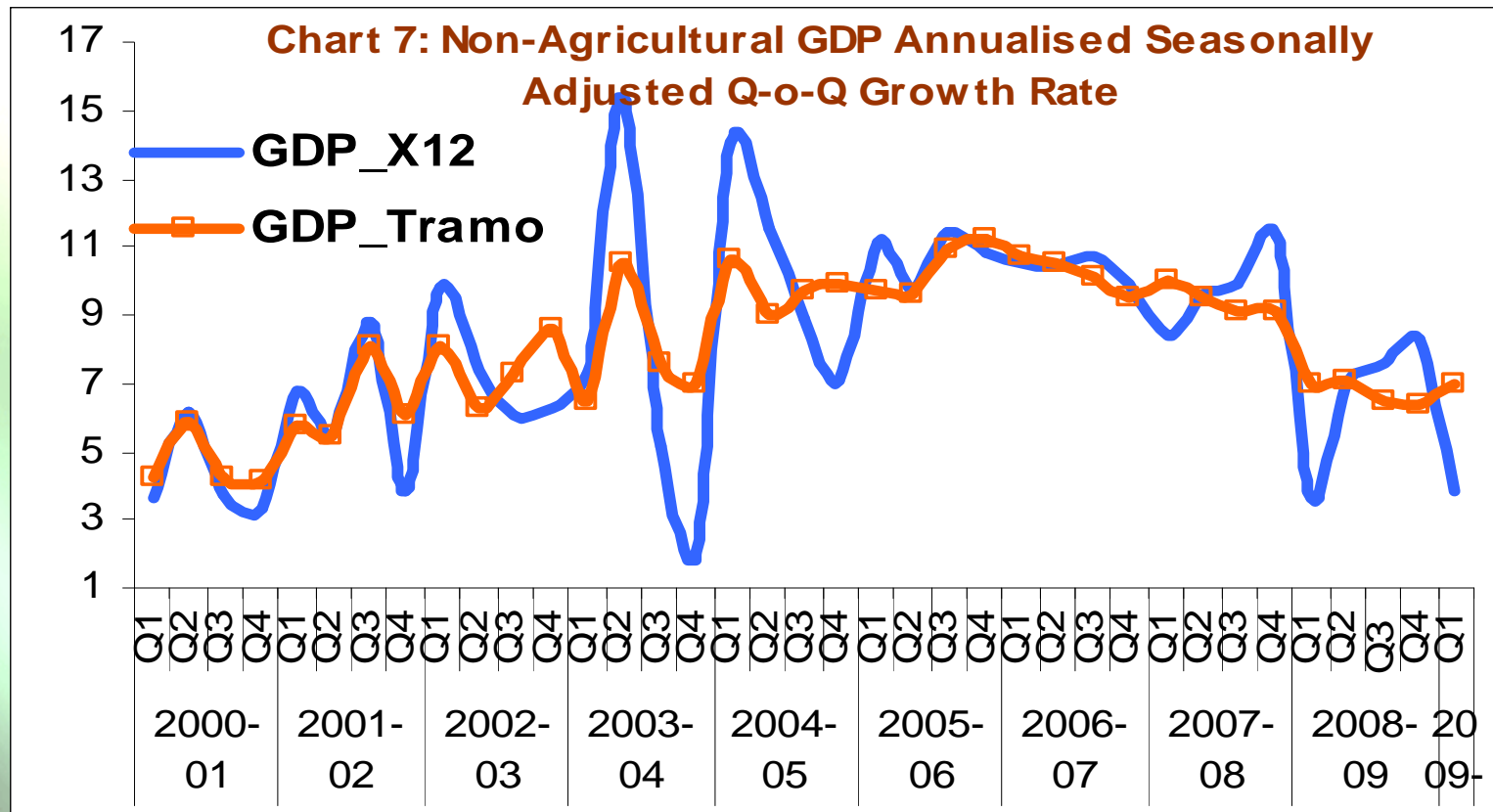
Drop in consumption growth followed by drop in investment growth

Fiscal Stimulus



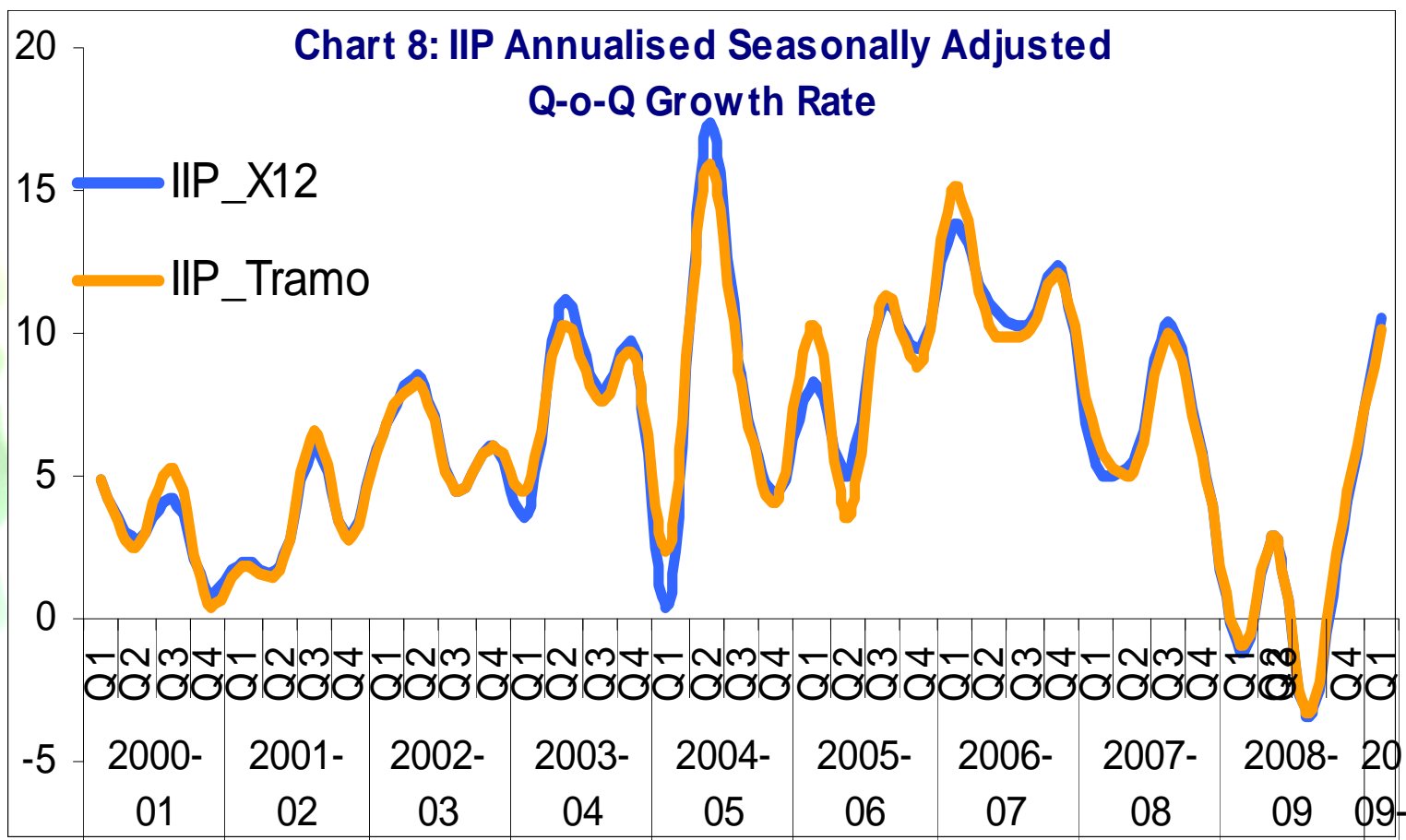
Fiscal stimulus cushioned the fall in demand growth

Quarter-on-Quarter Data: Non-Agricultural Growth



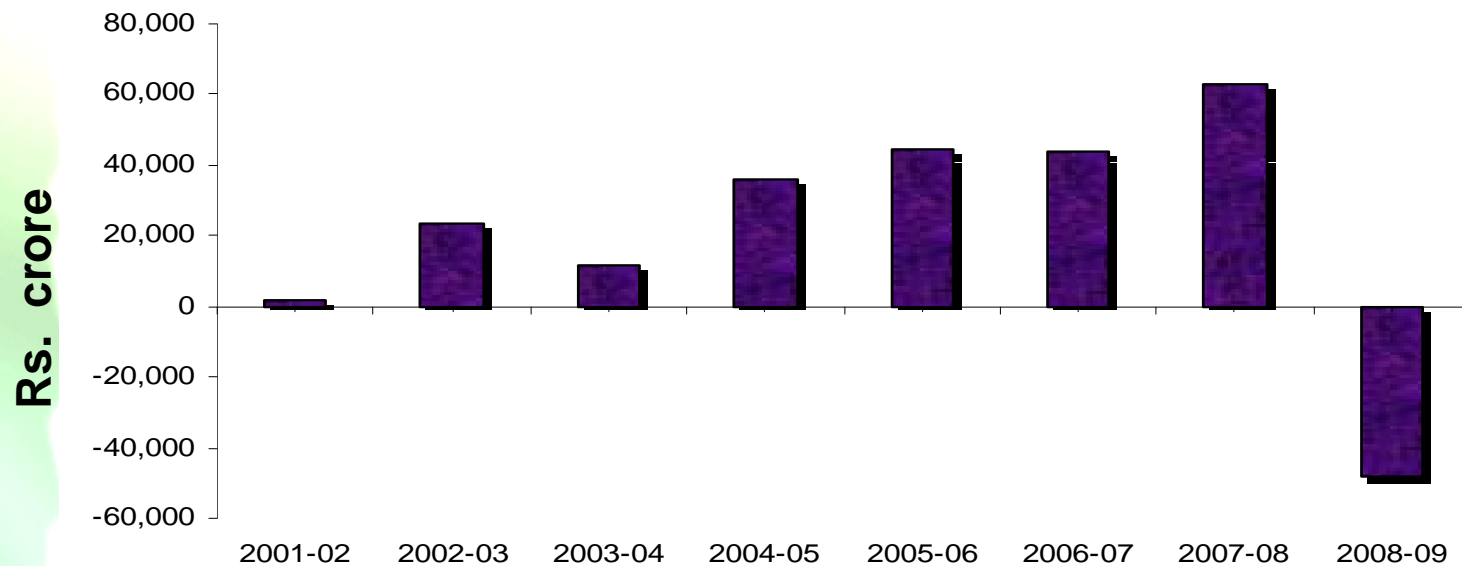
Signs of bottoming out

Quarter-on-Quarter Data: IIP



Strong revival in last two quarters

Manufacturing Collapse and De-stocking



Source: CMIE Prowess.

Industrial recovery so far related to inventory rebuilding?

Corporate Demand



**Table 3 : Corporate Performance: Manufacturing Sector
(Year-on-Year Growth in Per Cent)**

	2007-08		2008-09				2009-10
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	16.0	24.2	39.6	38.1	6.9	-5.9	-13.3
Other & extra-ordinary income	56.7	0.6	-40.6	-8.3	-13.6	6.0	63.8
Total expenses	16.6	26.7	43.3	47.0	7.1	-11.7	-15.4
Raw materials, stores, spares, etc.	15.5	31.7	48.3	53.3	5.1	-17.7	-19.9
Salaries and wages	18.4	24.3	31.1	26.1	19.1	2.5	-1.2
Power & fuel	18.9	27.4	29.0	39.1	20.1	0.9	-0.7
Interest expenses	30.3	26.6	39.8	64.1	81.8	49.4	14.5
Net Profit	14.9	3.7	-4.5	-61.1	-57.3	25.3	21.8

Source: CMIE Prowess (1870 companies).

Profitability improved but sales growth deteriorated



3. Fiscal Sustainability

Fiscal Sustainability



- Falling fiscal deficits brought down debt-GDP ratios
 - Centre from 63% in 2004-05 to 59% in 2008-09
 - Centre and states combined from 81% to 75%
- Expected to rise this year to 60% for the centre and 77% for the centre and states combined

Fiscal Sustainability



- Debt ratio is determined by:
 1. Difference between nominal GDP growth and nominal interest rate on debt and
 2. Primary balance

Debt Ratios: Two Scenarios



	Best Scenario	Worst Scenario
Year	$g = 14\%$, $i = 7\%$, $p = 3\%$	$g = 12\%$, $i = 9\%$, $p = 5\%$
2008-09	74.7	74.7
2009-10	73.1	77.7
2010-11	71.6	80.6
2011-12	70.2	83.5
2012-13	68.9	86.2
2013-14	67.7	88.9
2014-15	66.5	91.5
2015-16	65.4	94.1
2016-17	64.4	96.6

Note: g = Nominal growth rate, i = Interest rate on debt, p = primary deficit.

Policy Options

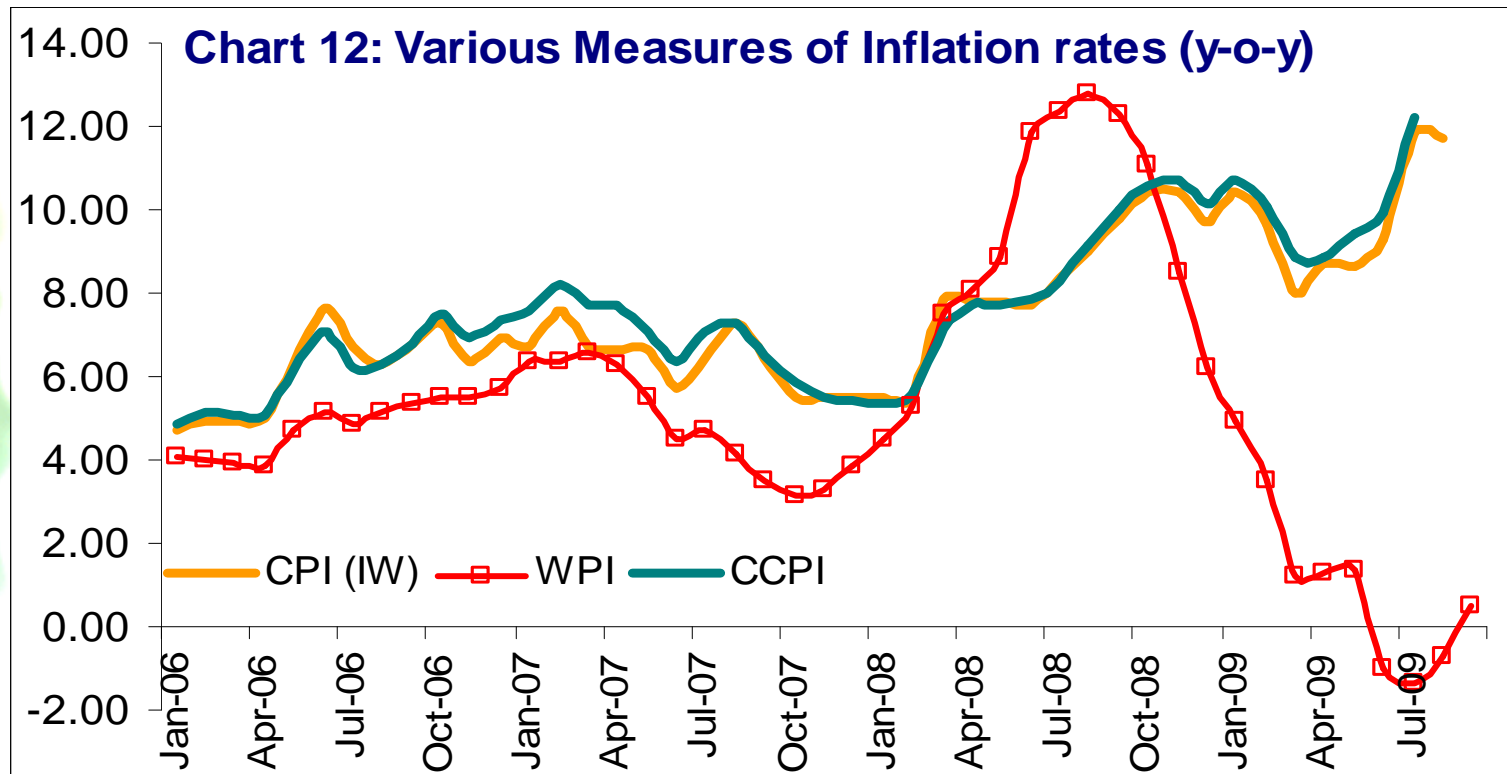


- With nominal GDP growth less than 12%, interest rate on debt at 7.5% and primary deficit of 4.5% of GDP debt ratio is bound to rise
- Need to reduce primary deficit
- Interest rate reduction may not be possible
- Inflation option?
 - Not feasible in India

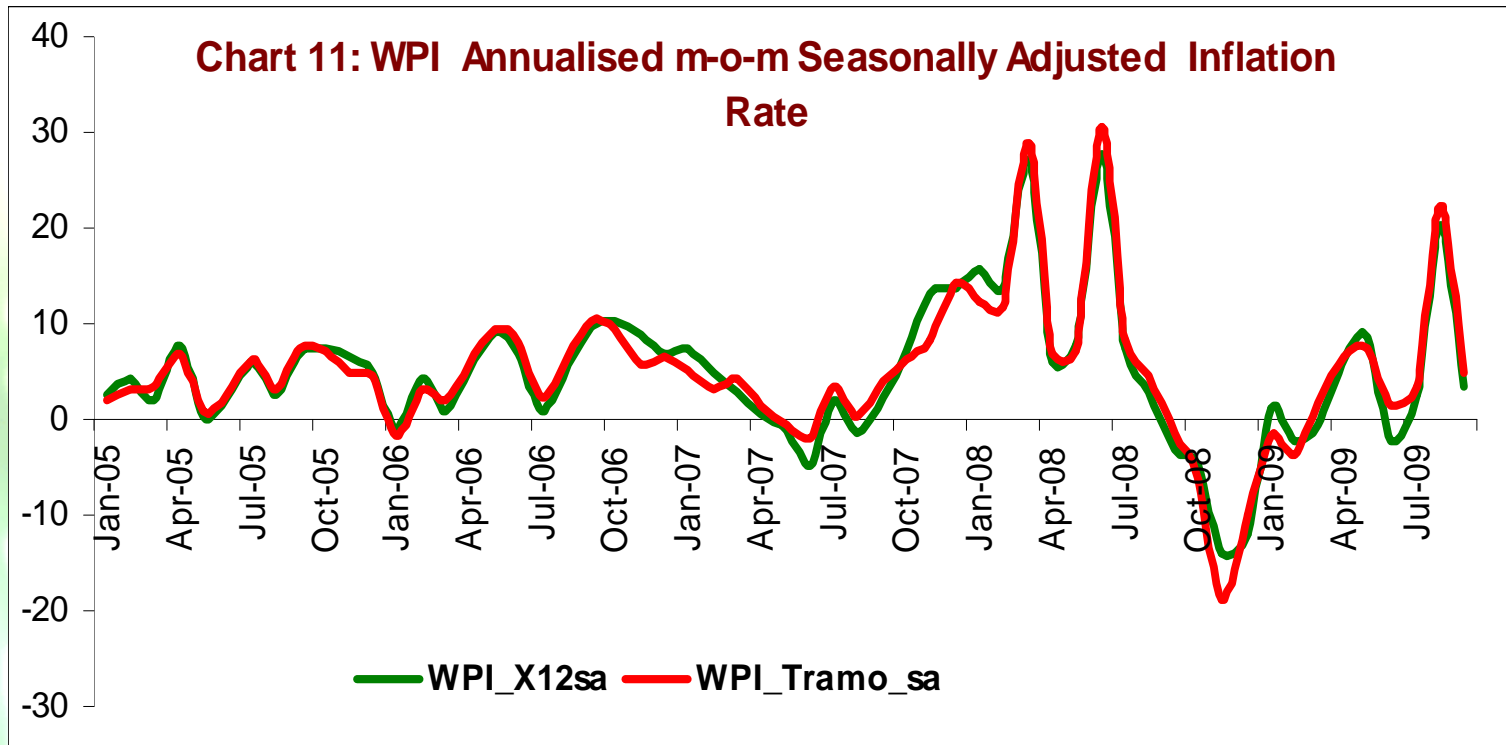


4. Inflation

WPI and CPI: Diverging Trends

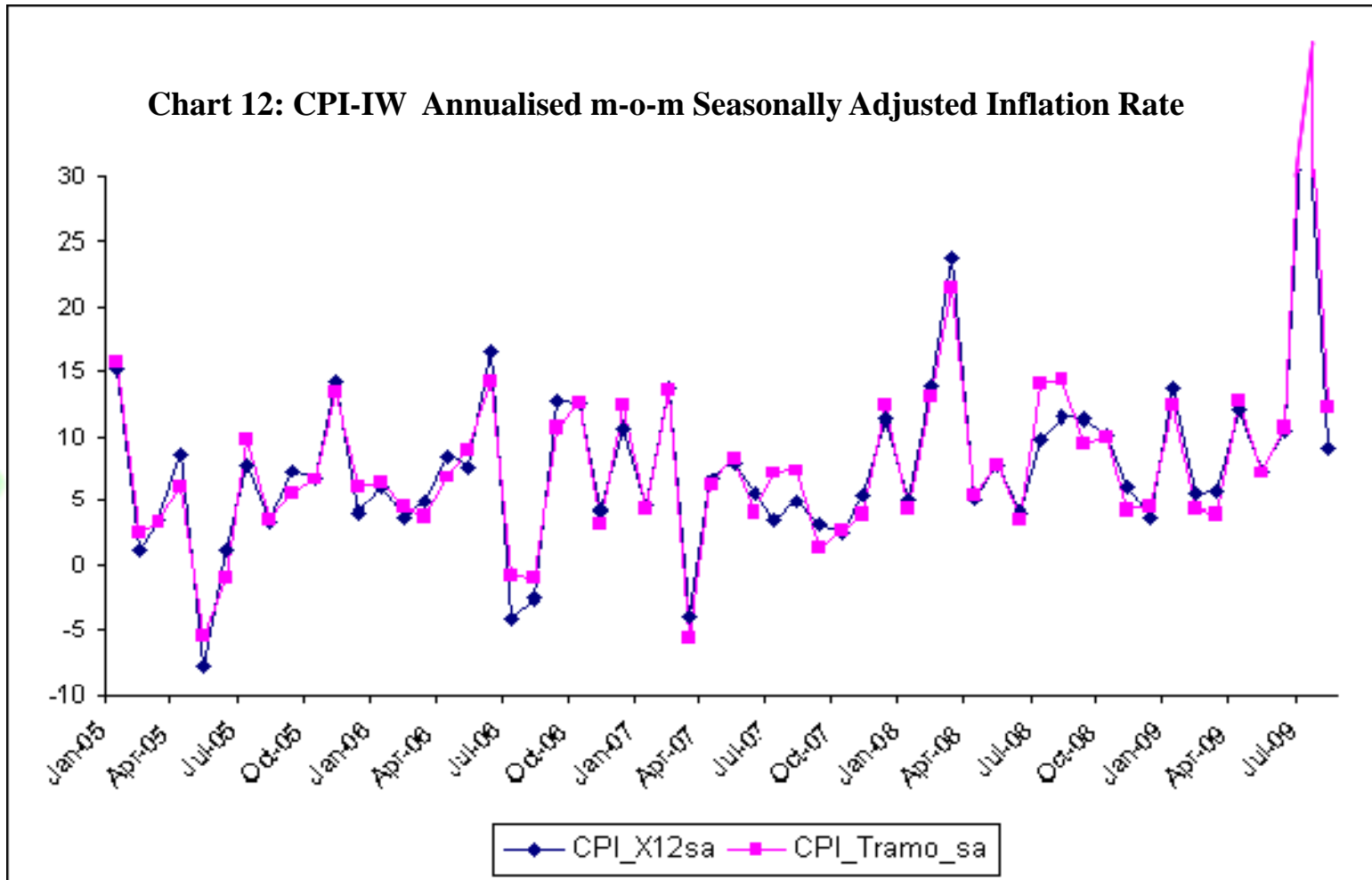


Month-on-Month Trends: WPI



Moved up fast from deflation to high inflation in July & August 09, but moderation in September

Month-on-Month Trends: CPI



Moving up very high in June & July 2009, but moderated in August.

WPI Inflation by Product Group



	WPI	Primary articles		Fuel, power, light & lubricants	Manufactured products		
		Food	Non-food		All	Food	Basic metals alloys & metals
Weights	100.0	15.4	6.1	14.2	63.8	11.5	8.3
Jun-08	11.8	5.9	17.1	16.3	10.6	14.4	21.3
Jul-08	12.4	6.0	17.0	17.2	11.1	14.0	22.8
Aug-08	12.8	6.9	17.0	17.2	11.7	14.5	23.3
Sep-08	12.3	7.7	17.0	16.6	10.9	14.0	21.0
Oct-08	11.1	9.9	13.8	14.0	9.4	8.6	19.4
Nov-08	8.5	10.3	12.1	6.4	7.8	5.4	14.6
Dec-08	6.2	10.0	9.3	-0.2	6.6	4.2	12.6
Jan-09	4.9	11.0	6.7	-1.7	5.3	6.9	7.4
Feb-09	3.5	9.3	2.1	-3.4	4.8	9.3	2.2
Mar-09	1.2	7.5	-0.9	-6.0	2.3	8.9	-9.4
Apr-09	1.3	8.6	1.9	-5.7	1.8	12.5	-14.3
May-09	1.4	8.4	3.0	-6.1	2.2	13.9	-13.3
Jun-09	-1.0	10.9	0.1	-12.5	0.6	11.5	-14.1
Jul-09	-0.9	12.0	-2.6	-10.3	0.0	9.8	-15.1
Aug-09	-0.7	13.4	-2.1	-9.8	-0.4	10.8	-15.0
Sep-09	0.5	15.7	-3.2	-8.2	0.3	12.2	-13.3

Source: Office of Economic Adviser, Ministry of Industry.

High inflation in food items and negative in others

Food Inflation Vs General Inflation

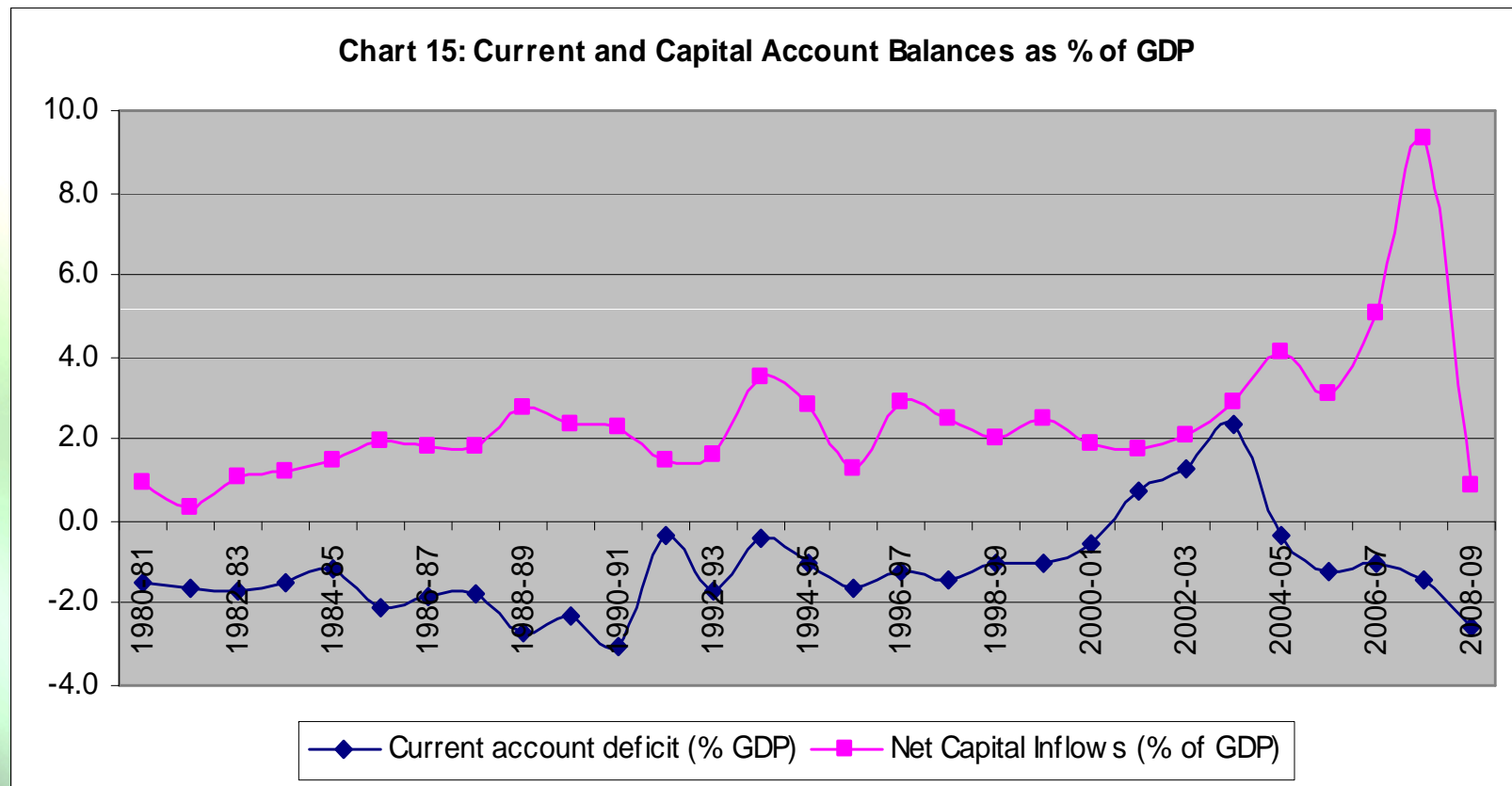


- Current inflation just a “food inflation” due to agricultural crop failure?
 - WPI inflation mainly food items
- CPI (IW) inflation also seen in “personal care & effects” (mostly FMCGs) and “other miscellaneous items” (mostly consumer durables) with a combined weight of 7.6%
 - 12% for personal care & effects
 - 20% for other miscellaneous items



5. Balance of Payments

Balance of Payments



- *2008-09 current a/c deficit highest since 1990-91*
- *Capital surplus lowest since 1981-82*

BOP 2009-10



- Assumptions:
 - Exports to fall by 10% and imports by 12.5%
 - Oil import price \$70/bbl against \$81/bbl last year
 - Software exports to rise by 5% against 19% last year
 - Private remittances to decline by 7% against a growth of 5% last year



Table 11: India's Balance of Payments: Projections for 2009-10 (US\$ million)

	2006-07	2007-08	2008-09	2009-10 (P)
Exports	128888	166163	175184	157666
Imports	190670	257789	294587	257764
Trade balance	-61782	-91626	-119403	-100098
% of GDP	-6.8	-7.8	-10.3	-8.2
Invisible receipts	114558	148604	162556	165562
Invisible payments	62341	74012	72970	75513
Invisibles, net	52217	74592	89586	90049
% of GDP	5.7	6.4	7.7	7.4
Current account	-9565	-17034	-29817	-10049
% of GDP	-1.0	-1.5	-2.6	-0.8
Capital account (net)	46171	109198	9737	67415
% of GDP	5.1	9.3	0.8	5.5
-Foreign direct investment	7693	15401	17496	19547
-Portfolio investment	7060	29556	-14034	23820
-External commercial borrowings	16103	22633	8158	10000
-Short-term trade credit	6612	17183	-5795	2000
-External assistance	1775	2114	2638	3406
-NRI deposits	4321	179	4290	8642
-Other banking capital	-2408	11578	-7687	0
-Other flows	5015	10554	4671	0
Change in Reserves (-increase/ +decline)	-36606	-92164	20080	-57366

Source: Reserve Bank of India for data up to 2008-09 and our projections for 2009-10.



**Table 12: India's Exchange Rate and Current Account Balance,
1993-94 to 2009-10**

Year	US\$/Re (1993-94=100)	36-Country Trade- weighted NEER	36-Country Trade- weighted REER	Current Account Balance as % of GDP
1993-94	100.0	100.0	100.0	-0.4
1994-95	99.9	98.91	104.32	-1.0
1995-96	94.06	91.54	98.19	-1.6
1996-97	88.37	89.27	96.83	-1.2
1997-98	84.54	92.04	100.77	-1.4
1998-99	74.59	89.05	93.04	-1.0
1999-00	72.39	91.02	95.99	-1.0
2000-01	68.7	92.12	100.09	-0.6
2001-02	65.78	91.58	100.86	0.7
2002-03	64.82	89.12	98.18	1.3
2003-04	68.27	87.14	99.56	2.3
2004-05	69.84	87.31	100.09	-0.4
2005-06	70.86	89.85	102.35	-1.2
2006-07	69.28	85.89	98.48	-1.1
2007-08	77.96	93.91	104.81	-1.5
2008-09	68.31	86.15	94.62	-2.6
2009-10 (Apr-Jul)*	64.41	82.78	90.96	-2.1

* Current account deficit is for Apr-Jun 2009.
Source: Reserve Bank of India.



6. GDP Growth Forecasts

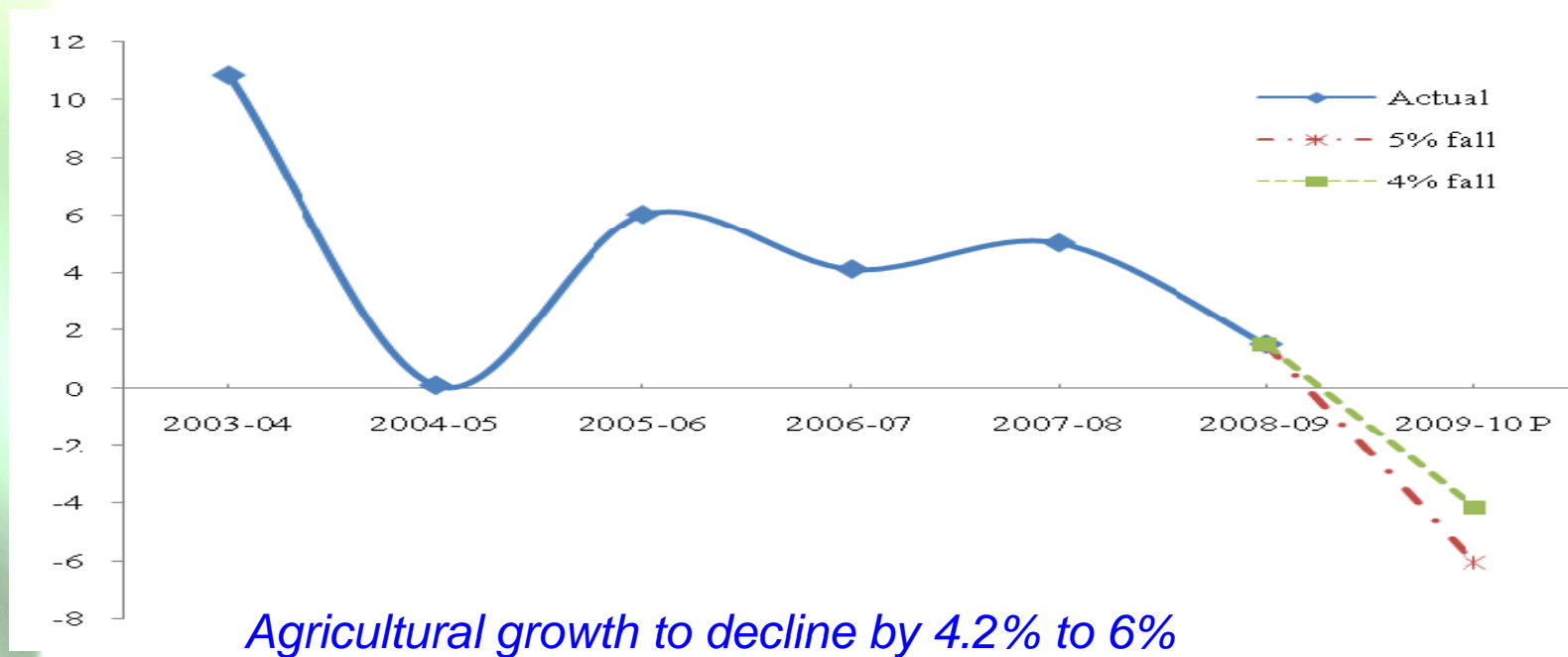
GDP Forecasts 2009-10: Agriculture



$$\text{AGRIGR} = -175.88 + 1.30 \text{ SOWNAREA} - 1.35 \text{ LAG3MAAGRIGR} + 0.07 \text{ RAINFALL}$$

(-4.88)** (5.07)** (-3.97)** (1.62)*

R-bar Square = 0.71



Forecasts of GDP: Non-agricultural sector

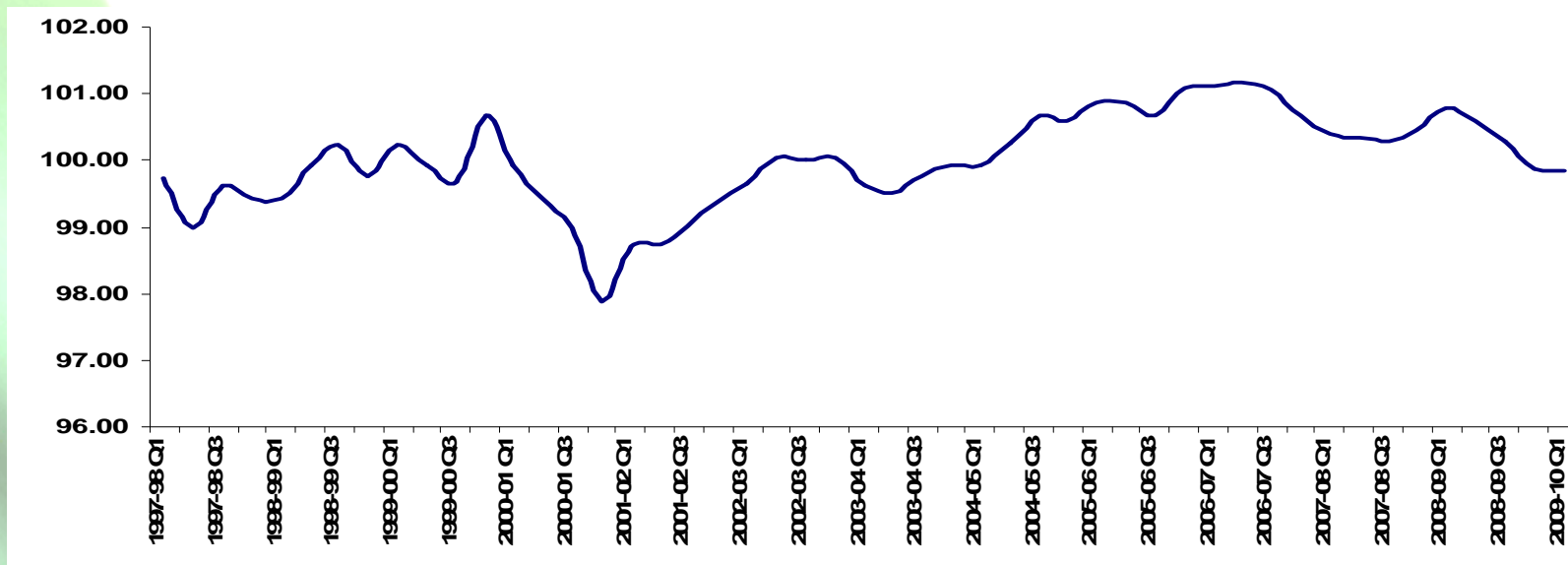


$$\text{GRNon-agriGDP}_t = 8.80 + 1.50 \text{LEI}_{t-5} - 3.34 \text{Dummy}$$

(42.87)** (5.66)** (-5.99)**

R-bar Square = 0.58

Index of Leading Economic Indicators



LEI has stopped falling in Q1 2009-10



Forecast Summary

	Weight	2008-09	2009-10	HI 2010-11
Agriculture	0.16	1.6	-4.2 to -6.0	NA
Forestry & fishing	0.02	NA	3.0	NA
Non-Agriculture	0.82	7.8	8.2	8.6
Total	1.00	6.7	5.8 to 6.1	NA



7. Summary & Policy Suggestions

Summary & Policy Suggestions

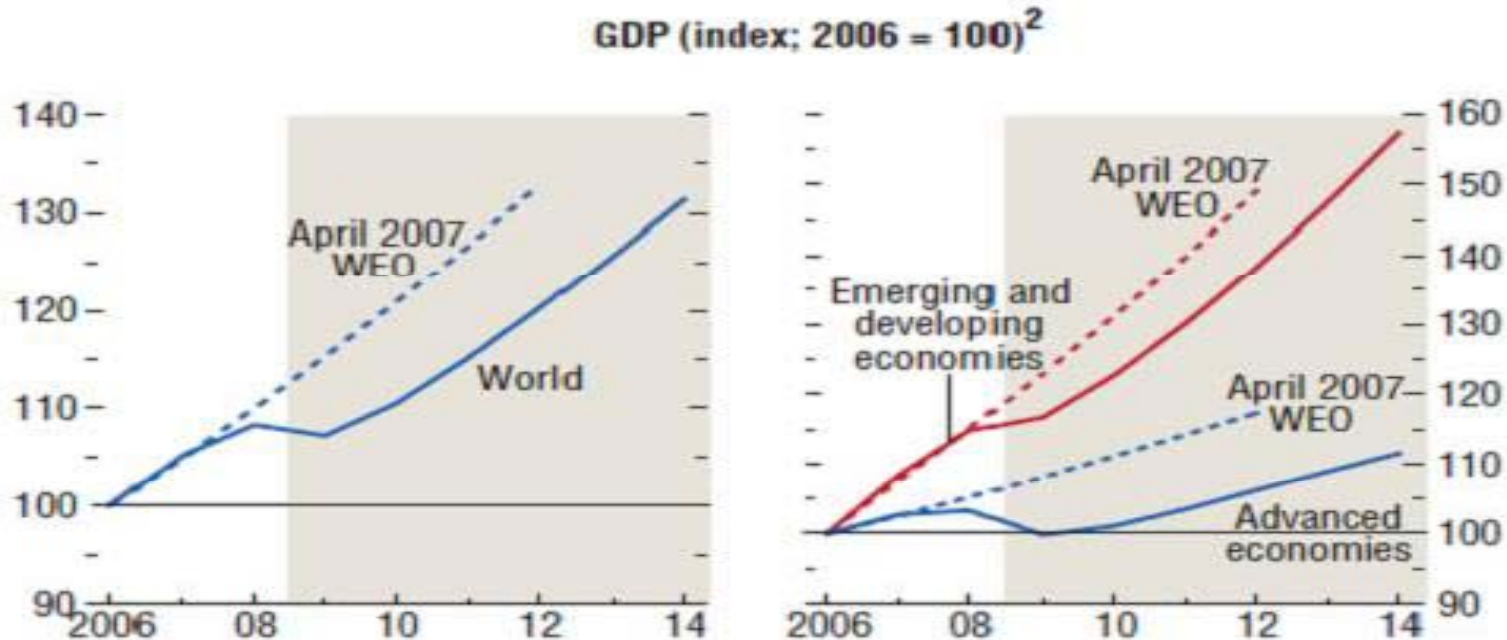


- Recovery has started but not yet fully secure
- Inflation high but moderation in recent weeks
- Rupee to be under upward pressure
- Fiscal correction needed from next year
- Status quo in monetary policy in the immediate future
- A gradual and moderate rupee appreciation tolerable



Thank You.

IMF Recovery Projections



Source: World Economic Outlook database projections.

¹In percent of precrisis trend; mean difference from year $t - 1$; first year of crisis at $t = 0$. The figure reports the estimated mean path (line) and the 90 percent confidence interval for the estimated mean (shaded area).

²GDP path predicted in the April 2007 WEO (dashed line) versus current GDP path (solid line).



Spread of Crisis to India

